Columbia Gas of Kentucky
A NiSource Company

December 9, 2015

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PUBLIC SERVICE COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

RE: Case No. 2015-00354

Dear Mr. Derouen

Enclosed for docketing with the Commission is an original and ten (10) copies of Columbia Gas of Kentucky Inc.'s Responses to the Commission's First Set of Data Requests in the above referenced case. Should you have any questions about this filing, please contact me at 614-460-5558.

Sincerely,

Brooke E. Leslie

Brooke E. Leslie
Assistant General Counsel

Enclosures

cc: Hon. Richard S. Taylor

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COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
DATED DECEMBER 2, 2015

1. Refer to the Application, paragraph (e), and Exhibit A. Columbia states that it is requesting authority to issue new notes and/or stock not to exceed a total of $58 million. The September 30, 2015 balance sheet included in Exhibit A shows that Columbia has an equity-to-debt ratio of 53.6 to 46.4 percent.

a. Describe in detail the factors that will be considered in determining the amounts of notes and stock to be issued.

b. Provide Columbia's target equity-to-debt ratio. If Columbia continues to target a 52 to 48 equity-to-debt ratio based on Case No. 2009-00141, which was the response to this same question in Case No. 2012-00418, explain why the equity component of its capital structure remains closer to 54 percent than 52 percent.

Response:

(a) Columbia anticipates that it will fund its future capital expenditure requirements and long-term debt maturities through a combination of operating cash flows, available investment balances within the NiSource

System Money Pool Agreement (the "Money Pool"), new long-term intercompany note issuances, and, where required, equity capital contributions from the Company's immediate parent, NiSource Gas Distribution Group, Inc [successor in interest to Columbia Energy Group].

Additionally, the Company could potentially incur short-term borrowings via the Money Pool during the requested authorization period to temporarily finance its ongoing capital expenditure program. The rationale behind this approach is that from a corporate governance and general efficiency standpoint, it would not be practical for Columbia to continuously issue smaller denomination intercompany notes to NiSource Finance Corp. (NFC) as the Company incurs ongoing expenditures under its capital program. For this reason, the Company may temporarily finance its future capital expenditures via the Money Pool system, but would then at some point convert or "term-out" these short-term borrowings into long-term intercompany notes once a sufficient level of aggregate short-term borrowings had been made within the Money Pool.

Finally, Columbia would only seek additional equity contributions from NiSource Gas Distribution Group in the event that an additional equity contribution was necessary to maintain the existing composition of the Company's capital structure within a reasonable tolerance level, consistent with regulatory precedent in Kentucky.

(b) Columbia's targeted equity-to-capitalization level is between 52.0%-53.0%. However, the Company's capital structure ratios may temporarily fluctuate either above or below this targeted level as the various factors which impact the capital structure ratios (levels of profitability and retained earnings, changes in dividend policy, etc.) may differ somewhat from anticipated (or planned) levels. In the instant proceeding, Columbia is seeking $58.0 million of new long-term debt financing authority, which, if received prior to year-end, would enable Columbia to issue additional long-term intercompany notes to NFC by the end of December 2015. This would have the intended effect of migrating Columbia's equity-to-capitalization ratio closer to the Company's targeted level of 52.0%-53.0%. In addition, Columbia anticipates that it will be making a dividend payment (amount yet to be determined) to NiSource Gas Distribution Group during December 2015, which would also have the effect of moving Columbia's equity-to-capitalization ratio closer to the targeted level.

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2. Refer to the Application, paragraph (j).

a. Provide the estimated range within which Columbia expects the interest rate(s) on the notes to fall, and whether Columbia has established, or plans to establish, an upper limit on the interest rates at which it will issue new notes.

b. Describe the effect Columbia expects current credit market conditions to have on the interest rates that will be applied to the notes as well as on the process of issuing the notes.

c. Explain how the method described in paragraph (j) for determining the interest rate will ensure that Columbia obtains the most favorable interest rate available in the capital market. Provide the current financial profile of NiSource Finance Corp. as well as a list of companies having a similar credit risk profile.

Response:

(a) Columbia has provided in the form of Staff Set No. 2(a) Attachment A, an example of a report from the "C038" screens of Bloomberg Finance LP, which identifies the current interest rate yield for BBB+ rated utility bond issuers. Consistent with paragraph (j) of Columbia's financing application, this report indicates that if Columbia were to issue a 30-year intercompany note to NFC as of December 3, 2015, the interest rate assigned to the note would be 4.73% (report shows 4.7317%). This interest rate would be derived directly from the "C038" screens of Bloomberg Finance L.P., and would not include any form of "mark-up" by NiSource Finance Corp. In view of the fact that Columbia has no control over future market rates of interest, the Company is not in a position to provide an estimated range of where Columbia's interest rates will fall in the future. For this same reason, the Company cannot provide an upper limit on the interest rates it will apply to future note issuances, but can provide assurance that all future debt issuances will bear interest rates which clearly reflect prevailing capital market conditions at the time of their issuance.

(b) Please see Staff Set No. 2(a) Attachment A, which demonstrates the effects of current capital market conditions on the interest rate that would be applied to an intercompany note issuance by Columbia to NFC as of December 3, 2015.

(c) As discussed in paragraph (j) of Columbia's financing application, the interest rate of the Notes will be determined by directly referencing the prevailing yield on U.S. utility bonds as reported by Bloomberg Finance L.P. (as reported in the Bloomberg "C038" Index (or equivalent index) - Historical Price Table, using Mid-Yield values) for companies with a credit risk profile equivalent to that of NiSource Finance Corp., effective on the date a Note is issued. The long-term debt credit ratings of NiSource Finance Corp. are currently BBB+ at Standard & Poor's and Baa2 at Moody's, which reflects a one-notch higher relative credit rating at Standard & Poor's (versus Moody's). Considering that the *higher* of these two credit ratings (BBB+) will be referenced when determining the interest rate on Columbia's future note issuances, the Company will be assigned an interest rate that is either equal to, or better than, prevailing market interest rates for companies with credit profiles similar to NiSource Finance Corp.

Columbia is not in a position to provide a listing of companies that have a credit risk profile similar to NiSource Finance Corp., since this would encompass hundreds, if not thousands, of other companies.

C03830Y 4.7317 +.1191 4.7317/4.7317

At 12/3 Op 4.7317 Hi 4.7317 Lo 4.7317 Prev 4.6126 Vol 0

C03830Y Index | 96) Export to Excel | Page 1/6 | Historical Price Table

BFV USD US Utility BBB+ 30 Year

Range 12/05/2014 - 12/03/2015 Period Daily

Market Mid Yield Currency

View Price Table

High	4.7534	on	06/26/15
Low	3.6278	on	01/30/15
Average	4.3103		
Net Chg	.3223		7.31%

Date	Mid Yield	Date	Mid Yield	Date	Mid Yield
Fr 12/04/15		Fr 11/13/15	4.6837	Fr 10/23/15	4.5053
Th 12/03/15	4.7317	Th 11/12/15	4.7178	Th 10/22/15	4.4894
We 12/02/15	4.6126	We 11/11/15	4.7169	We 10/21/15	4.5019
Tu 12/01/15	4.5857	Tu 11/10/15	4.7169	Tu 10/20/15	4.5151
Mo 11/30/15	4.6070	Mo 11/09/15	4.7245	Mo 10/19/15	4.5008
Fr 11/27/15	4.6394	Fr 11/06/15	4.6861	Fr 10/16/15	4.5015
Th 11/26/15	4.6339	Th 11/05/15	4.5975	Th 10/15/15	4.4775
We 11/25/15	4.6339	We 11/04/15	4.5900	We 10/14/15	4.4347
Tu 11/24/15	4.6466	Tu 11/03/15	4.6030	Tu 10/13/15	4.5033
Mo 11/23/15	4.6786	Mo 11/02/15	4.5628	Mo 10/12/15	4.5456
Fr 11/20/15	4.6580	Fr 10/30/15	4.5521	Fr 10/09/15	4.5456
Th 11/19/15	4.6532	Th 10/29/15	4.5526	Th 10/08/15	4.5514
We 11/18/15	4.6947	We 10/28/15	4.4639	We 10/07/15	4.5263
Tu 11/17/15	4.6983	Tu 10/27/15	4.4420	Tu 10/06/15	4.5166
Mo 11/16/15	4.7189	Mo 10/26/15	4.4694	Mo 10/05/15	4.5393

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3. Refer to the Application, paragraph (k). Columbia states it "proposes to issue and sell to NiSource Gas Distribution Group up to 147,752 shares of authorized, but unissued Stock, at $25 par value, yielding up to $3,693,800 in additional equity capital."

a. State whether this is the same 147,752 shares of authorized but unissued stock Columbia sought (in paragraph (k) of the applications) and received approval to issue in Case Nos. 2008-00403[3] and 2012-00418.

b. Explain why Columbia has not issued stock as authorized in those proceedings, and whether it believes it is likely to issue this stock before December 31, 2017.

Response:

(a) Yes, it is the same.

(b) As discussed in Columbia's response to Staff Set 1-No. 1(a), the Company anticipates that it would only have a need to issue stock in the event that additional equity funding was required to maintain the Company's capital structure within a reasonable range of its current targeted level, consistent with regulatory precedent in Kentucky. In recent years, the Company has been able to maintain the targeted composition of its capital structure without the need for any further stock issuances. It is therefore unlikely that Columbia will have a need to issue additional common stock prior to December 31, 2017. Nevertheless, for the reasons articulated in the Company's response to Staff Set 1-No. 1(a), the Company would like to preserve its ability to issue additional common stock in the future, should the need arise.

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4. Refer to the Application, Exhibit C. State whether any of these notes will be refinanced with funds requested in this proceeding.

Response:

As further discussed in Columbia's response to Staff Set 1-No. 1(a), the Company anticipates that it will fund both its future capital expenditure requirements and long-term debt maturities through a *combination* of operating cash flows, available investment balances within the NiSource Money Pool, new long-term intercompany note issuances, and, where required, equity capital contributions from the Company's immediate parent.

Columbia has two long-term debt maturities which will occur during the requested authorization period as follows: (1) a $10.75 million debt maturity occurring on January 5, 2016, and (2) a $4.21 million debt maturity occurring on January 5, 2017. The Company has requested $58.0 million of new long-term debt financing authority in the instant proceeding, which when combined with the various other financing sources identified above, will ensure that the Company can adequately cover *all* of its financing needs during the requested authorization period.